

# Matthew C. Walsman

Cornell University, School of Hotel Administration  
455 Statler Hall, Ithaca, NY 14853 | Email: [mcw237@cornell.edu](mailto:mcw237@cornell.edu) | Phone: 607.793.5365

## Research Statement

### Summary

The primary focus of my research is to study how behavioral decision making impacts operations management in service settings. This cross-disciplinary work lies at the intersection of behavioral economics, psychology, and operations management. Using empirical methodologies I ask generally, what is the impact of people's decisions on operational processes and outcomes? More specifically, my work to date has two major streams:

1. The role of advisors as decision makers for their clients in the context of professional service firms (PSFs).
2. The decision to pursue environmental certification and its impact on financial performance in the hospitality industry.

### Primary Research Area 1: Decision Making in Professional Service Firms

In 1997, Arvind Mills—the world's 5<sup>th</sup> largest denim producer—was prosperous and, acting on the advice of consultants, the company took on huge quantities of debt to increase capacity. Shortly following their growth initiative, the world-wide demand for denim plummeted and by 1998 Arvind Mills was near-bankruptcy. The company was saved by an aggressive restructuring effort (aided by a different consulting firm) and is now prosperous again. What I find so interesting is that depending on who you ask, it was consultants who ruined<sup>1</sup> and saved Arvind Mills<sup>2</sup>. Why did one consultant fail and the other succeed?

Arvind Mills' experience with consultants is an illustration of the potentially tenuous co-productive relationship between advisors and clients. Firms today are increasingly delegating or outsourcing decision making responsibility to consultants or advisors known commonly as PSFs (e.g. accounting, management consulting, engineering, or investment banking firms). In 2013 PSFs accounted for nearly 8% of the gross

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<sup>1</sup> O'Shea, J. E., & Madigan, C. (1997). *Dangerous company: The consulting powerhouses and the businesses they save and ruin*. Times Books.

<sup>2</sup> Bureau, E.T. (2012, Dec 14). *Arvind Mills: From near bankruptcy to reinvention*.

[http://articles.economictimes.indiatimes.com/2012-12-14/news/35820140\\_1\\_sanjay-lalbhair-kulin-lalbhair-punit](http://articles.economictimes.indiatimes.com/2012-12-14/news/35820140_1_sanjay-lalbhair-kulin-lalbhair-punit)

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output in the United States, up from 7.4% seven years earlier<sup>3</sup>. While each PSF is unique, they all share a common attribute: PSFs work as advisors to provide recommendations to their clients, but they rarely make final decisions themselves. Clients and advisors work together to co-produce a solution. This co-production is central to the client-advisor relationship, but it is also fraught with challenges. At times, advisor's goals do not align with their client's goals giving rise to goal conflict or moral hazard. Goal conflict can then lead to sub-optimal outcomes for one or both parties. In my first research area I investigate, in two papers, the co-productive relationship between advisors and clients and the process by which advisors make decisions for their clients.

In pursuing this research, my first goal was to understand how PSFs operate. In my first dissertation essay I took a 'deep dive' into PSFs to better understand the unique characteristics and challenges PSFs encounter. Traditional models in the OM literature describe PSFs as high in customer contact/engagement, customization, and knowledge intensity, but low in capital intensity. Using primary data from a survey, choice experiment, and supporting qualitative data from executives, I challenged these traditional models and discovered that in the context of management consultants in the hospitality industry, the traditional models are incomplete. Consultants in my sample spent little time with their clients and did not customize as much as they advertised. Capital intensity was also fairly high among my subjects. In addition, I discovered that many of these characteristics are dependent on contingencies such as firm size, firm specialization, and individual seniority. Regarding challenges, large firms were more concerned about employee related challenges, while small firms were concerned with process related challenges. This study makes a contribution to the growing PSF literature by providing empirical evidence for a more nuanced contingent approach to developing professional service models.

In my second essay (ongoing research), I examine the professional service paradigm and experimentally test the influence customers have on their advisors. I explore the circumstances and reasons why advisors may give—purposefully or inadvertently—recommendations that produce suboptimal customer outcomes. Specifically, I test the impact of a customer's 'seeded' solution on an advisor's effort and subsequent recommendation. I hypothesize that once customers clue their advisors into their own opinion, the advisors will recommend solutions that are consistent with those customer opinions, regardless of whether the opinions are correct or will lead to positive customer outcomes. I also hypothesize that this effect will be mitigated by advisor effort, meaning that if an advisor expends high

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<sup>3</sup> <http://www.bea.gov/index.htm>

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levels of effort towards discovering a solution, he will be less likely to simply conform to their customer's opinion. Most decision making literature in both psychology and economics focuses on individual decision making and not decision making for others. My study contributes to a growing literature on decision making for others. This study is ongoing and I look forward to presenting my results.

## **Primary Research Area 2: Environmental Certification in the Hospitality Industry**

In my second research area I investigate the impact of the decision to pursue environmental certification on firm financial performance in the hospitality industry. Understanding how various certification programs can impact performance has become an important area of study in operations management (e.g. ISO 9000, Six Sigma, Lean). In a similar way, the impact of environmental certifications on performance has become increasingly important as environmental issues are so widely scrutinized. In my final essay I departed from the PSF context and tested the effect of one specific decision that managers in service firms are commonly faced with: should my firm pursue environmental certification (i.e. LEED) with uncertainty regarding financial returns? In this study I used an event study approach (difference-in-differences), supplemented with a longitudinal random coefficient model with data collected in the hospitality industry, and tested whether LEED certified hotels generated more revenue than their non-certified peers. I discovered that LEED certified hotels do generate more revenue (driven by higher occupancy rates). This superior performance however is fleeting and disappears after two years. This paper makes an important contribution to the field of sustainable operations because prior studies on LEED certification focused on cost reduction, while I demonstrated superior revenue performance driven by LEED certification in the hospitality industry.